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YIELD SPREAD PREMIUMS

Elimination of YSP would negatively impact potential borrower's in several ways. Please consider the following:

1. The difference between the interest rate with a 1% YSP is generally .250% higher rate than one with no YSP. Assuming the broker should get paid a 1% fee, this means without the YSP the borrower would pay a 1% origination fee for .250% lower interest rate. Based on a \$200,000 loan amount both would equal \$2,000.
 - a. The difference in payments (based on 30 yr loan) of 5% and 5.250% is \$31 per month. If the borrower takes the 5.250% (saves \$2,000 out-of-pocket), at an increase of \$31 per month it would actually take them 64.5 months before they spent the \$2,000. (2,000 divided 31). The average life of a loan is three years or less. Based on this should the borrower refinance their loan or move on or before 64.5 months they actually would save money by taking the higher interest rate. Or, on the other hand, cost them money if they had to pay the fees out-of-pocket.
 - b. Let us assume a No Closing cost loan for the same borrower. By raising the interest rate to 5.5% (using YSP factors) the broker could then pay an additional \$2,000 in closing cost. Now the borrower comes to the table with \$4,000 less dollars. The difference in payments of 5% and 5.5% is \$106 per month. Dividing \$4,000 by \$106 means it would take the borrower 38 months at \$106 before they put out \$4,000. Again, if the borrower refinances or moves on or before 38 months they actually save money by taking the higher rate, or loose money if they had to pay all the fees out-of-pocket
 - c. Eliminating YSP has a least four effects. (a) From an accounting view point in makes no sense to a borrower (b) From the borrower's viewpoint, it eliminates options that could actually cost them money (c) From the borrower's viewpoint, it would probably prevent 30% of potential home buyers because of the increased cost to close a loan, of which they don't have. (4) Unless everyone in the mortgage industry was equal (including banks, etc) it would destroy the mortgage broker business. Assuming this is not the intent, and records are correct, 75% or more of all home loans are done through mortgage brokers. Why ? Because mortgage brokers typically have more loan products to offer clients with less overhead which equates to lower cost to the consumer. RESPA states that it exist in order to protect the consumer from unnecessary cost. Eliminating YSP would appear to be a total disregard of their stated mission.
 - d. Hopefully you can see the many benefits of YSP and how it relates to borrower's by providing them several options that would be eliminated without YSP. If I might respectfully suggest a option that would be to cap the YSP to a certain percentage, say 3% or so This way no one gets taken advantage of plus it would allow mortgage brokers the option to assist home buyers with their purchases and refinancing. Eliminating YSP is not a home buyer friendly program nor has any merit for consideration if it's the home buyer we are talking about.

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